

**DELAWARE MILITARY ACADEMY  
CHARTER SCHOOL  
(A Component Unit of the State of Delaware)  
Wilmington, Delaware**

**FINANCIAL STATEMENTS**

**JUNE 30, 2007**

**DELAWARE MILITARY ACADEMY CHARTER SCHOOL**  
**(A Component Unit of the State of Delaware)**

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## INDEPENDENT AUDITORS' REPORT

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September 28, 2007

Board of Directors  
Delaware Military Academy Charter School  
Wilmington, Delaware

We have audited the accompanying financial statements of the governmental activities and each major fund of Delaware Military Academy Charter School (the "School"), Wilmington, Delaware (a component unit of the State of Delaware) as of and for the year ended June 30, 2007, which collectively comprise the School's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year summarized comparative information has been derived from the School's financial statements as of and for the year ended June 30, 2006 and, in our report dated November 14, 2006, we expressed an unqualified opinion on those fund financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Delaware Military Academy Charter School as of June 30, 2007, and the respective changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2007, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the budgetary information on pages 2 through 8 and page 24, respectively, are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Delaware Military Academy Charter School's basic financial statements. The schedules on pages 25 - 27 are presented for purposes of additional analysis and are not a required part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Barbacane, Thornton & Company*  
BARBACANE, THORNTON & COMPANY

BARBACANE  
THORNTON  
& COMPANY  
CERTIFIED PUBLIC ACCOUNTANTS

**MANAGEMENT'S DISCUSSION  
AND ANALYSIS SECTION**

## **DELAWARE MILITARY ACADEMY CHARTER SCHOOL MANAGEMENT'S DISCUSSION AND ANALYSIS**

Our discussion and analysis of Delaware Military Academy Charter School's financial performance provides an overview of the School's financial activities for the year ended June 30, 2007, which is the School's fourth full year of operation. Please read it in conjunction with the Independent Auditors' Report and the Academy's financial statements.

### **FINANCIAL HIGHLIGHTS**

The School's net assets decreased by \$314,356, and general revenues accounted for \$4.7 million, or 87 percent of total revenues.

The School reported a deficit of \$117,177.

### **USING THIS ANNUAL FINANCIAL REPORT**

This annual financial report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the School as a whole, and then proceed to provide an increasingly detailed look at specific financial activities.

### **REPORTING THE SCHOOL AS A WHOLE**

#### ***The Statement of Net Assets and Statement of Activities***

One of the most important questions asked about School finances is, "Is the School better or worse off as a result of the year's activities?". The Statement of Net Assets and the Statement of Activities report information about the School as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the School's net assets and changes in them. The change in net assets provides the reader with a tool to assist in determining whether the School's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as student enrollment stability and facility conditions in arriving at a conclusion regarding the overall health of the School.

### **REPORTING THE SCHOOL'S MOST SIGNIFICANT FUNDS**

#### ***Fund Financial Statements***

Our analysis of the School's major funds and fund financial statements provides detailed information about the most significant funds - not the School as a whole. Some funds are required to be established by State statute, while other funds are established by the School to help manage money for particular purposes and compliance with various grant provisions.

**DELAWARE MILITARY ACADEMY CHARTER SCHOOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Governmental Funds**

All of the Charter School's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end available for spending in future periods. These funds are reported using the modified accrual method of accounting, which measures cash and other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the School's general government operations and the basic services it provides. Governmental fund information helps one determine whether there are more or fewer financial resources available to spend in the near future to finance the School's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the basic financial statements. Activities related to capital assets, long-term debt and compensated absences are the primary reconciling items.

**ENTITY-WIDE FINANCIAL ANALYSIS**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the School, liabilities exceeded assets by \$117,177 at the close of the fiscal year. A comparative net assets analysis of fiscal years 2006-2007 follows:

**Table 1  
NET ASSETS**

	<u>Governmental Activities</u>	
	<u>2007</u>	<u>2006</u>
<b>ASSETS</b>		
Current and Other Assets:		
Cash and investments	\$1,016,640	\$ 680,448
Accounts receivable	51,975	43,823
Prepaid rent	<u>51,282</u>	<u>51,282</u>
Total Current Assets	1,119,897	775,553
Noncurrent Assets:		
Capital assets, net of depreciation	<u>2,684,235</u>	<u>2,918,486</u>
<b>TOTAL ASSETS</b>	<u><b>\$3,804,132</b></u>	<u><b>\$3,694,039</b></u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable	\$ 128,509	\$ 9,385
Due to State of Delaware - pension costs	79,690	49,899
Uniform deposit	167,080	142,898
Accrued salaries	523,194	269,203
Note Payable	<u>8,028</u>	<u>8,028</u>
Total Current Liabilities	<u>906,501</u>	<u>479,413</u>

**DELAWARE MILITARY ACADEMY CHARTER SCHOOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Table 1 (continued)  
NET ASSETS**

	<u>Governmental Activities</u>	
	<u>2007</u>	<u>2006</u>
Noncurrent Liabilities:		
Compensated Absences	56,886	52,946
Note Payable	<u>2,957,922</u>	<u>2,964,501</u>
Total Noncurrent Liabilities	<u>3,014,808</u>	<u>3,017,447</u>
<b>TOTAL LIABILITIES</b>	<b><u>3,921,309</u></b>	<b><u>3,496,860</u></b>
Net Assets (Deficit):		
Invested in capital assets, net of depreciation	(281,715)	(54,043)
Unrestricted	<u>164,538</u>	<u>251,222</u>
<b>TOTAL NET ASSETS (DEFICIT)</b>	<b><u>\$ (117,177)</u></b>	<b><u>\$ 197,179</u></b>

**Table 2  
CHANGES IN NET ASSETS**

	<u>Governmental Activities</u>	
	<u>2007</u>	<u>2006</u>
<b>REVENUES</b>		
General revenue:		
Charges to school districts	\$1,454,448	\$1,357,600
Payments from primary government	3,142,234	2,687,873
Earnings on cash and investments	56,061	25,433
Program Revenue:		
Operating grants and contributions	<u>722,097</u>	<u>931,615</u>
Total Revenues	<u>5,374,840</u>	<u>5,002,521</u>
<b>EXPENSES</b>		
Instructional services	3,700,466	2,933,648
Support services:		
Operation and maintenance of facilities	1,278,105	1,178,785
Transportation	427,995	328,790
Interest on debt	<u>282,630</u>	<u>251,958</u>
Total Expenses	<u>5,689,196</u>	<u>4,693,181</u>
<b>CHANGE IN NET ASSETS</b>	<b><u>\$ (314,356)</u></b>	<b><u>\$ 309,340</u></b>

**DELAWARE MILITARY ACADEMY CHARTER SCHOOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

***Governmental Activities***

Net assets of the School's governmental activities decreased by \$314,356, with unrestricted net assets decreasing by \$117,099.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The table below reflects the cost of program services and the net cost of those services after taking into account the program revenues for governmental activities. General revenues that include charges to school districts, investment earnings and state entitlements must support the net cost of the School's programs.

	<u>2007 Services</u>		<u>2006 Services</u>	
	<u>Total Cost</u>	<u>Net Cost</u>	<u>Total Cost</u>	<u>Net Cost</u>
Governmental Activities:				
Instructional services	\$ 3,700,466	\$ 2,978,369	\$ 2,933,648	\$ 2,002,033
Support services:				
Operation and maintenance of				
Facilities	1,278,105	1,278,105	1,178,785	1,178,785
Transportation	427,995	427,995	328,790	328,790
Interest on long-term debt	<u>282,630</u>	<u>282,630</u>	<u>251,958</u>	<u>251,958</u>
Total Expenses	<u>\$ 5,689,196</u>	<u>\$ 4,967,099</u>	<u>\$ 4,693,181</u>	<u>\$ 3,761,566</u>

The reliance on general revenues to support governmental activities is indicated by the net services column reflecting the need for \$4,967,099 of support.

**THE SCHOOL'S FUNDS**

The School's governmental funds (as presented on the balance sheet) as of June 30, 2007 reported a combined fund balance of \$221,424 compared to last year's total fund balance of \$304,168.

***Governmental Funds***

The School's fund balance decrease is due to many factors, the most significant of which is an increase in instruction expenses. The table that follows assists in illustrating the financial activities and balance of governmental funds.



**DELAWARE MILITARY ACADEMY CHARTER SCHOOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**

	<u>Total Governmental Funds</u>	
	<u>2007</u>	<u>2006</u>
<b>REVENUES</b>		
Charges to school districts	\$ 1,454,448	\$ 1,357,600
State aid	3,142,234	2,687,873
Federal aid	141,516	105,465
Earnings on cash and investments	56,061	25,433
Contributions	<u>580,581</u>	<u>795,627</u>
<b>TOTAL REVENUES</b>	<u><b>5,374,840</b></u>	<u><b>4,971,998</b></u>
<b>EXPENDITURES</b>		
Current:		
Instructional services	3,613,507	2,788,642
Operation and maintenance of facilities	1,062,954	963,634
Transportation	427,995	328,790
Debt service:		
Principal	6,579	16,653
Interest	282,630	251,958
Capital outlays:		
Equipment	63,919	94,309
Property	<u>-</u>	<u>93,349</u>
<b>TOTAL EXPENDITURES</b>	<u><b>5,457,584</b></u>	<u><b>4,537,335</b></u>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(82,744)</b>	<b>434,663</b>
<b>FUND BALANCES (DEFICIT), BEGINNING OF YEAR</b>	<u><b>304,168</b></u>	<u><b>(130,495)</b></u>
<b>FUND BALANCES, END OF YEAR</b>	<u><b>\$ 221,424</b></u>	<u><b>\$ 304,168</b></u>

The increase in revenues for the year was due to the addition of students during the current fiscal year which led to the increase in revenue received from the primary government. Student enrollment increased by nine students from 509 students in fiscal year 2006 to 518 students in fiscal year 2007.

Expenditures exceeded revenues and financing proceeds during the fiscal year resulting in an \$82,744 decrease in fund balances. The fund balances are still being diligently monitored during the start-up period.

**DELAWARE MILITARY ACADEMY CHARTER SCHOOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**GENERAL FUND BUDGET INFORMATION**

The School's budget is prepared in accordance with the modified accrual basis of accounting. The most significant budgeted fund is the General Fund. The School may amend its revenue and expenditure estimates periodically due to changing conditions. The original budget was not amended during fiscal year 2007.

The following are explanations for the more significant variances between budget versus actual revenues and expenditures as shown on page 24.

***Revenues***

**Federal Aid**

The favorable variance of \$222,934 results from the budget not showing consolidated grants and other restricted monies.

**Earnings on Cash and Investments**

The favorable variance of \$56,061 results from the budget not reflecting expected earnings on cash and investments.

**Contributions**

The favorable variance of \$383,562 is attributable primarily to various unexpected donations received by the School.

***Expenditures***

**Salaries**

The unfavorable variance of \$301,713 is attributable primarily to the School's hiring of more teachers and salary increases from prior years.

**Contractual Services**

The unfavorable variance of \$212,609 is attributable primarily to costs for various school functions and activities. Much of the costs associated with this account are discretionary and based upon the revenues secured in grants and fund raising.

**Land/Building/Facilities**

The unfavorable variance of \$111,964 is attributable primarily to the budget not reflecting 12 months of rent.

**Supplies and Materials**

The unfavorable variance of \$84,112 is attributable primarily to extra costs incurred for various classroom items that were not included in the budget.

**DELAWARE MILITARY ACADEMY CHARTER SCHOOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**CAPITAL ASSETS**

The School has \$2,684,235 invested in capital assets, net of depreciation, all of which are attributed to governmental activities. Acquisitions for governmental activities totaled \$15,503 and depreciation was \$249,754. The majority of the acquisitions were for leasehold improvements to the School's two facilities at 1000 Middleboro Road, Wilmington, Delaware. Detailed information regarding capital asset activity is included in the notes to the basic financial statements.

**DEBT ADMINISTRATION**

At the end of the current fiscal year, Delaware Military Academy Charter School has total debt outstanding of \$2,965,950. The majority of this debt is a direct result of funding the fit-out of the school facility.

**FACTORS EXPECTED TO HAVE AN EFFECT ON FUTURE OPERATIONS**

Fiscal year 2007 was the fourth year of operation as a functioning school. The School has reached ultimate planned capacity.

**CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our fellow citizens, customers, parents, investors, potential investors and creditors with a general overview of the School's finances. If you have questions about this report or need additional financial information, contact the School's Director of Operations at (302) 998-0745.

**BASIC FINANCIAL STATEMENTS SECTION**

DELAWARE MILITARY ACADEMY CHARTER SCHOOL  
STATEMENT OF NET ASSETS  
JUNE 30, 2007

	<u>Governmental Activities</u>	
	<u>2007</u>	<u>2006</u>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 1,016,640	\$ 680,448
Accounts receivable	51,975	43,823
Prepaid rent	<u>51,282</u>	<u>51,282</u>
Total Current Assets	1,119,897	775,553
Noncurrent Assets:		
Capital assets, net of depreciation	<u>2,684,235</u>	<u>2,918,486</u>
<b>TOTAL ASSETS</b>	<u>\$ 3,804,132</u>	<u>\$ 3,694,039</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities:		
Accounts payable	\$ 128,509	\$ 9,385
Accrued salaries	523,194	269,203
Due to State of Delaware - pension costs	79,690	49,899
Uniform deposit escrow	167,080	142,898
Notes payable	<u>8,028</u>	<u>8,028</u>
Total Current Liabilities	<u>906,501</u>	<u>479,413</u>
Noncurrent Liabilities:		
Compensated absences	56,886	52,946
Notes payable	<u>2,957,922</u>	<u>2,964,501</u>
Total Noncurrent Liabilities	<u>3,014,808</u>	<u>3,017,447</u>
<b>TOTAL LIABILITIES</b>	<u>3,921,309</u>	<u>3,496,860</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	(281,715)	(54,043)
Unrestricted	<u>164,538</u>	<u>251,222</u>
Total Net Assets (Deficit)	<u>(117,177)</u>	<u>197,179</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 3,804,132</u>	<u>\$ 3,694,039</u>

The accompanying notes are an integral part of these financial statements.

DELAWARE MILITARY ACADEMY CHARTER SCHOOL  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2007

	Expenses	Charges for Services	Program Revenues	Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Assets
GOVERNMENTAL ACTIVITIES					
Instructional services					
Support services:					
Operation and maintenance of facilities	(1,278,105)	-			(1,278,105)
Transportation	(427,995)	-			(427,995)
Interest on long-term debt	(282,630)	-			(282,630)
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$(5,689,196)</u>	<u>\$ -</u>	<u>\$ 722,097</u>	<u>\$ -</u>	<u>\$(2,978,369)</u>
GENERAL REVENUES					
Charges to school districts					1,454,448
Payments from primary government					3,142,234
Earnings on cash and investments					<u>56,061</u>
TOTAL GENERAL REVENUES					<u>4,652,743</u>
CHANGE IN NET ASSETS					(314,356)
NET ASSETS, BEGINNING OF YEAR					<u>197,179</u>
NET ASSETS (DEFICIT), END OF YEAR					<u>\$ (117,177)</u>

The accompanying notes are an integral part of these financial statements.

DELAWARE MILITARY ACADEMY CHARTER SCHOOL  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2006

	Expenses	Charges for Services	Program Revenues	Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Assets
					Total
GOVERNMENTAL ACTIVITIES					
Instructional services	\$ (2,933,648)	\$ -	\$ 931,615	\$ -	\$ (2,002,033)
Support services:					
Operation and maintenance of facilities	(1,178,785)	-	-	-	(1,178,785)
Transportation	(328,790)	-	-	-	(328,790)
Interest on long-term debt	(251,958)	-	-	-	(251,958)
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ (4,693,181)</u>	<u>\$ -</u>	<u>\$ 931,615</u>	<u>\$ -</u>	<u>\$ (3,761,566)</u>
GENERAL REVENUES					
Charges to school districts					1,357,600
Payments from primary government					2,687,873
Earnings on cash and investments					<u>25,433</u>
TOTAL GENERAL REVENUES					<u>4,070,906</u>
CHANGE IN NET ASSETS					309,340
NET ASSETS (DEFICIT), BEGINNING OF YEAR					<u>(112,161)</u>
NET ASSETS, END OF YEAR					<u>\$ 197,179</u>

The accompanying notes are an integral part of these financial statements.

DELAWARE MILITARY ACADEMY CHARTER SCHOOL  
BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2007

	<u>Totals</u>	
	<u>2007</u>	<u>2006</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$1,016,640	\$ 680,448
Accounts receivable	51,975	43,823
Prepaid rent	<u>51,282</u>	<u>51,282</u>
<b>TOTAL ASSETS</b>	<u>\$1,119,897</u>	<u>\$ 775,553</u>
<b>LIABILITIES AND FUND BALANCES</b>		
<b>LIABILITIES:</b>		
Accounts payable	\$ 128,509	\$ 9,385
Accrued salaries	523,194	269,203
Due to State of Delaware - pension costs	79,690	49,899
Uniform deposits	<u>167,080</u>	<u>142,898</u>
Total Liabilities	<u>898,473</u>	<u>471,385</u>
<b>FUND BALANCES:</b>		
Board-designated	30,415	-
Unreserved:		
General Fund	<u>191,009</u>	<u>304,168</u>
Total Fund Balances	<u>221,424</u>	<u>304,168</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$1,119,897</u>	<u>\$ 775,553</u>

The accompanying notes are an integral part of these financial statements.



DELAWARE MILITARY ACADEMY CHARTER SCHOOL  
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS TO STATEMENT OF NET ASSETS  
JUNE 30, 2007

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ 221,424
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Capital assets net of accumulated depreciation as detailed in the footnotes are included in the statement of net assets.	2,684,235
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Long-term liabilities applicable to the governmental activities are not due and payable in the current period and, therefore, are not reported as fund liabilities. Those liabilities consist of:

Compensated absences	\$ (56,886)	
Notes payable	<u>(2,965,950)</u>	<u>(3,022,836)</u>

TOTAL NET ASSETS (DEFICIT) - GOVERNMENTAL ACTIVITIES	\$ <u>(117,177)</u>
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The accompanying notes are an integral part of these financial statements.

DELAWARE MILITARY ACADEMY CHARTER SCHOOL  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2007

	<u>Totals</u>	
	<u>2007</u>	<u>2006</u>
REVENUES		
Charges to school districts	\$1,454,448	\$1,357,600
State aid	3,142,234	2,687,873
Federal aid	141,516	105,465
Earnings on cash and investments	56,061	25,433
Contributions	<u>580,581</u>	<u>795,627</u>
TOTAL REVENUES	<u>5,374,840</u>	<u>4,971,998</u>
EXPENDITURES		
Current:		
Instructional services	3,613,507	2,788,642
Operation and maintenance of facilities	1,062,954	963,634
Transportation	427,995	328,790
Capital Outlays:		
Equipment	63,919	94,309
Property	-	93,349
Debt Service:		
Principal	6,579	16,653
Interest	<u>282,630</u>	<u>251,958</u>
TOTAL EXPENDITURES	<u>5,457,584</u>	<u>4,537,335</u>
NET CHANGE IN FUND BALANCES	(82,744)	434,663
FUND BALANCES (DEFICIT), BEGINNING OF YEAR	<u>304,168</u>	<u>(130,495)</u>
FUND BALANCES, END OF YEAR	<u>\$ 221,424</u>	<u>\$ 304,168</u>

The accompanying notes are an integral part of these financial statements.

DELAWARE MILITARY ACADEMY CHARTER SCHOOL  
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2007

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (82,744)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$1,000 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital outlays	\$ 15,503	
Depreciation expense	<u>(249,754)</u>	(234,251)

The issuance of long-term debt (e.g., notes, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.

Payment of note principal	6,579
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Compensated absences	<u>(3,940)</u>
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CHANGE IN NET ASSETS - GOVERNMENTAL ACTIVITIES	<u>\$ (314,356)</u>
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The accompanying notes are an integral part of these financial statements.

## DELAWARE MILITARY ACADEMY CHARTER SCHOOL

### NOTES TO FINANCIAL STATEMENTS

#### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Description of the Charter School

Delaware Military Academy Charter School is organized under Delaware Code, Title 14, Chapter 5 of the State of Delaware. The Charter School Law grants authority for independent public schools to be created for the purpose of increasing choices for parents of public school students and increasing academic performance. A charter school is an independent public school governed by an independent board of directors. In Delaware, charter schools have the same basic standing as a school district with some exceptions - most notably, they may not levy taxes. To encourage innovation, charter schools operate free from a number of state laws and regulations. Delaware Military Academy Charter School's initial charter was granted for a three-year period, renewable every five years thereafter.

Charter schools are funded similarly to other public schools in that state and local funds are allocated for each enrolled student. Public funds are not provided for facilities. Charter schools may charge for selected additional costs consistent with those permitted by other school districts. Because a charter school receives local, state and federal funds, they may not charge tuition.

Delaware Military Academy Charter School was established in November 2002 but did not begin a regular school year until September 2003. The year 2007 was the fourth full year of operations, which was funded primarily with state and local funding based upon student enrollment.

The financial statements of Delaware Military Academy Charter School have been prepared in conformity with generally accepted accounting principles as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of Delaware Military Academy Charter School (the "School") are described below.

##### Reporting Entity

The School is the primary government and is considered a component unit of the State of Delaware. A component unit, although a legally separate entity, is, in substance, part of the State of Delaware's operations. The School has no component units for which it is considered to be financially accountable.

##### Entity-wide and Fund Financial Statements

The entity-wide financial statements (the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the School. For the most part, the effect of interfund activity has been removed from these financial statements.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function.

DELAWARE MILITARY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Separate financial statements are provided for governmental funds. The major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

**Entity-wide financial statements** are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Charges to the School are recognized as revenues in the year for which they are billed. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**Governmental fund financial statements** are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, early retirement and post-employment healthcare benefits, are recorded only when payment is due.

Charges to the school districts, state appropriations and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the School receives cash.

The School reports the following major governmental fund:

- **General Fund.** The general fund is the School's primary operating fund. It accounts for all financial resources of the School, except those required to be accounted for in another fund.

Amounts reported or to be reported as program revenues include 1) charges to students for special fees, supplies or services provided; 2) operating grants and contributions; and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include charges to school districts.

Cash and Cash Equivalents

The School's cash and cash equivalents are considered to be cash on hand and demand deposits.

DELAWARE MILITARY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Capital Assets

Capital assets, which include leasehold improvements, and furniture and equipment, are reported in the entity-wide financial statements. The School defines capital assets as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend lives of the assets are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest cost incurred during construction is not capitalized.

Capital assets of the School are depreciated using the straight-line method over the estimated useful lives of the related assets. The School generally uses the following estimated useful lives:

Furniture and fixtures	10 years
Leasehold improvements	15 years
Equipment	7 years

Compensated Absences

Vacation pay plus related payroll taxes are accrued when incurred in the entity-wide financial statements. A liability for these amounts is reported in the governmental funds only when the liability matures, for example, as a result of employee resignations and retirements.

**Vacation** - Twelve-month employees can accumulate up to 42 days of vacation. Any days in excess of 42 are dropped as of July 1 of each year. Employees are paid for unused vacation upon termination, retirement, etc. at the current rate of pay.

**Sick Leave** - Sick leave allowances are as follows: teachers shall be allowed 10 days of sick leave per year and annual employees earn one day of sick leave for each month worked. Any unused sick days shall be accumulated to the employee's credit up to a maximum of 90 days. Compensation for accumulated sick days is received when employees (a) qualify and apply for state pension and are paid at a rate of 50 percent of the per diem rate of pay not to exceed 90 days; or (b) in the case of death, when payment is made to the employee's estate at a rate of one day's pay for each day of unused sick leave not to exceed 90 days.

Comparative Data

Comparative total data for the prior year is presented in the basic financial statements to provide an understanding of changes in the School's financial position and operations. That comparative data is not at the level of detail required for a presentation in conformity with generally accepted accounting principles and has been restated and reclassified, as needed, from the presentation in the School's June 30, 2006 basic financial statements to be comparative with the current year presentation.

# DELAWARE MILITARY ACADEMY CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS

### NOTE 2 CASH AND CASH EQUIVALENTS

At June 30, 2007, the School has a cash equivalent balance of \$1,016,640, all of which is part of an investment pool controlled by the personnel of the State Treasurer's Office in Dover, Delaware. All investment decisions are made by the State Treasurer's Office. These funds are considered to be highly liquid and available for immediate use and, thus, are recorded as cash equivalents in these financial statements.

The funds held by the State of Delaware investment pool, an internal investment pool, are specifically identified for the School, but the credit risk cannot be categorized for these funds. Credit risk for such investments depends on the financial stability of the State of Delaware. The State reports that its investment securities are stated at quoted market prices, except that investment securities with a remaining maturity at time of purchase of one year or less are stated at cost or amortized cost.

### NOTE 3 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets not being depreciated	\$ -	\$ -	\$ -	\$ -
Capital assets being depreciated:				
Leasehold improvements	3,227,270	-	-	3,227,270
Equipment	137,927	13,250	-	151,177
Furniture and fixtures	<u>112,568</u>	<u>2,253</u>	-	<u>114,821</u>
Total Capital Assets Being Depreciated	<u>3,477,765</u>	<u>15,503</u>	-	<u>3,493,268</u>
Accumulated depreciation:				
Leasehold improvements	(489,341)	(215,151)	-	(704,492)
Equipment and furniture	<u>(69,938)</u>	<u>(34,603)</u>	-	<u>(104,541)</u>
Total accumulated depreciation	<u>(559,279)</u>	<u>(249,754)</u>	-	<u>(809,033)</u>
Total Capital Assets Being Depreciated, Net	<u>2,918,486</u>	<u>(234,251)</u>	-	<u>2,684,235</u>
Governmental Activities Capital Assets, Net	<u>\$2,918,486</u>	<u>\$ (234,251)</u>	<u>\$ -</u>	<u>\$2,684,235</u>

Depreciation expense was charged to the following activities:

Governmental activities:	
Instructional activities	\$ 34,603
Operation and maintenance of facilities	<u>215,151</u>
	<u>\$249,754</u>

### NOTE 4 LEASING ARRANGEMENTS

The School leases its facility from Trison Builders under operating lease arrangements expiring in August of 2018. Total rent expense for the fiscal years ended June 30, 2007 and 2006 was \$615,396 for each year.

DELAWARE MILITARY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 4 LEASING ARRANGEMENTS (cont'd)

Future minimum lease payments under operating leases are as follows:

<u>Year Ending June 30,</u>	<u>Facility #1</u>	<u>Facility #2</u>	<u>Total</u>
2008	\$ 302,052	\$ 313,344	\$ 615,396
2009	302,052	313,344	615,396
2010	302,052	313,344	615,396
2011	302,052	313,344	615,396
2012	302,052	313,344	615,396
2013-2017	1,510,260	1,566,720	3,076,980
2018-2019	<u>352,394</u>	<u>365,568</u>	<u>717,962</u>
Minimum Future Rental Payments Required	<u>\$3,372,914</u>	<u>\$3,499,008</u>	<u>\$6,871,922</u>

NOTE 5 LONG-TERM DEBT

In June 2004, Delaware Military Academy Charter School obtained a loan in the amount of \$1,250,000 for the purposes of funding the fit-out of the new building and for repaying the balance of the April 2003 loan for construction in the amount of \$850,000. Interest on the new loan is paid monthly at a variable rate plus .50 percent. As of June 30, 2007, the rate charged was 8.75 percent. The loan is an interest-only loan until maturity date. The loan matures on May 31, 2009.

An analysis of debt service requirements to maturity on these obligations is as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ -	\$ 106,250	\$ 106,250
2009	<u>1,250,000</u>	<u>106,250</u>	<u>1,356,250</u>
	<u>\$1,250,000</u>	<u>\$ 212,500</u>	<u>\$1,462,500</u>

In June 2004, Delaware Military Academy Charter School obtained a loan in the amount of \$1,750,000 for the purposes of funding the fit-out of the new building and for repaying the balance of the April 2003 construction loan in the amount of \$850,000. Interest on the new loan is paid monthly at a variable rate plus one percent. As of June 30, 2007, the rate charged was 9.25 percent. The loan matures on May 31, 2009 when a lump sum principal payment is due to settle the loan.

An analysis of debt service requirements to maturity on these obligations is as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 8,028	\$ 158,820	\$ 166,848
2009	<u>1,707,922</u>	<u>145,585</u>	<u>1,853,507</u>
	<u>\$1,715,950</u>	<u>\$ 304,405</u>	<u>\$2,020,355</u>



DELAWARE MILITARY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 5 LONG-TERM DEBT (cont'd)

A schedule of changes in debt is as follows:

	Beginning <u>7/01/2006</u>	<u>Additions</u>	<u>Retirements</u>	Outstanding <u>6/30/2007</u>	Amounts Due within <u>One Year</u>
Governmental activities:					
Construction loan	<u>\$2,972,529</u>	<u>\$ -</u>	<u>\$ (6,579)</u>	<u>\$2,965,950</u>	<u>\$ 8,028</u>

During the term of the loan, the School is required to maintain at all times the following covenants:

- Minimum fund balance of \$250,000 as of June 30, 2005 and an increase by 50 percent of net surplus as of June 30, 2006 and 2007.
- Minimum cash flow coverage ratio of 1.10:1, effective June 30, 2006 and 2007.

The School did not meet either covenant as of June 30, 2007. However, the bank has issued a waiver letter to relieve the School of this requirement for both years.

NOTE 6 PENSION PLAN

Plan Description

School employees are considered state employees and are covered under the State of Delaware Employees' Pension Plan, which is a cost-sharing, multiple-employer defined benefit public employees retirement system (the "State PERS"). The State of Delaware General Assembly is responsible for setting benefits and amending plan provisions. The State Board of Pension Trustees determines the contributions required. All eligible state employees are required to contribute to the pension plan according to Chapter 55, Title 29 of the Delaware Code.

All full-time and regular part-time employees are eligible to participate in the State PERS. The State PERS provides pension, disability and death benefits. Certain significant plan provisions follow:

- Early retirement:
  - a. 15 years service - age 55
  - b. 25 years service - any age
- Service retirement:
  - a. 15 years service - age 60
  - b. 30 years service - any age
  - c. 5 years service - age 62
- Disability retirement:
  - a. 5 years service and proof of disability
- Vested pension - an employee can vest pension rights after five years of service.

DELAWARE MILITARY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 6 PENSION PLAN (cont'd)

The State PERS issues a publicly available financial report that includes the financial statements and required supplementary information. That report may be obtained by writing to the State of Delaware Public Employee Retirement System, McArdle Building, Suite 1, 860 Silver Lake Boulevard, Dover, DE 19904, or by calling 1-800-722-7300.

Funding Policy

Employees of the School are required to contribute three percent of earnings in excess of \$6,000. The School's pension expense for the years ended June 30, 2007, 2006 and 2005 was \$364,525, \$281,004 and \$229,291, respectively.

NOTE 7 RISK MANAGEMENT

The School has purchased commercial insurance policies for various risks of loss related to torts; theft, damage or destruction of assets; errors or omissions; injuries to employees; or acts of God. Payments of premiums for these policies are recorded as expenses of the School. Insurance settlements have not exceeded insurance coverage in the past year.

NOTE 8 COMMITMENTS AND CONTINGENCIES

In the normal course of business, there are outstanding various commitments and contingent liabilities in addition to the normal encumbrances for the purchase of goods and services. The School does not anticipate losses from these transactions.

Grants

The School receives financial assistance from federal agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the State Office of Auditor of Accounts. Any disallowed claims resulting from such audits could become a liability of the general fund. The School's administration believes such disallowance, if any, would be immaterial.

NOTE 9 RELATED PARTY TRANSACTIONS

Delaware Military Academy Charter School rents the School's facilities from Trison Building Concepts. The owner of Trison Building Concepts is the brother-in-law of the Chief Financial Officer of Delaware Military Academy Charter School.

DELAWARE MILITARY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 10 BOARD DESIGNATION

During the current year, Delaware Military Academy Charter School received contributions of \$30,014 to be held with the Delaware Community Foundation. The monies held are to be spent at the discretion of the Board of Directors. As of June 30, 2007, the balance was \$30,415.

NOTE 11 NET ASSETS (DEFICIT)

As of June 30, 2007, governmental activities had a deficit of \$117,177. The School expects to reduce this deficit with future earnings.

NOTE 12 EXCESS EXPENDITURES OVER APPROPRIATIONS

The School overspent budgetary appropriations in the following categories:

Salaries	\$ 301,713
Employment costs	\$ 41,365
Travel	\$ 3,959
Contractual services	\$ 212,609
Insurance	\$ 19,361
Transportation	\$ 82,195
Land/building/facilities	\$ 111,964
Repairs and maintenance	\$ 22,960
Supplies and materials	\$ 84,112
Computer/word processing software	\$ 1,965
Interest	\$ 10,659

Significant variances are explained in the Management's Discussion and Analysis section of this report.

## **REQUIRED SUPPLEMENTARY INFORMATION SECTION**

DELAWARE MILITARY ACADEMY CHARTER SCHOOL  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2007

	Original and Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES:			
Charges to school districts	\$1,440,240	\$1,454,448	\$ 14,208
State aid	2,919,300	3,142,234	222,934
Federal aid	26,253	141,516	115,263
Earnings on cash and investments	-	56,061	56,061
Contributions	197,019	580,581	383,562
TOTAL REVENUES	<u>4,582,812</u>	<u>5,374,840</u>	<u>792,028</u>
EXPENDITURES			
Current:			
Salaries	2,110,000	2,411,713	(301,713)
Employment costs	838,979	880,614	(41,635)
Travel	-	3,959	(3,959)
Contractual services	113,360	325,969	(212,609)
Public utility services	140,700	136,870	3,830
Insurance	26,000	45,361	(19,361)
Transportation - buses	345,800	427,995	(82,195)
Land/building/facilities	585,974	697,938	(111,964)
Repairs and maintenance	15,000	37,960	(22,960)
Supplies and materials	50,000	134,112	(84,112)
Computer/word processing software	-	1,965	(1,965)
Capital Outlays:			
Equipment	77,000	63,919	13,081
Debt Service:			
Principal	8,028	6,579	1,449
Interest	271,971	282,630	(10,659)
TOTAL EXPENDITURES	<u>4,582,812</u>	<u>5,457,584</u>	<u>(874,772)</u>
NET CHANGE IN FUND BALANCE	-	(82,744)	(82,744)
FUND BALANCE, BEGINNING OF YEAR	-	304,168	304,168
FUND BALANCE (DEFICIT), END OF YEAR	<u>\$ -</u>	<u>\$ 221,424</u>	<u>\$ 221,424</u>

NOTE: The School's budget is presented on the modified accrual basis of accounting.

## **SUPPLEMENTARY SECTION**

DELAWARE MILITARY ACADEMY CHARTER SCHOOL  
COMBINING BALANCE SHEET - GENERAL FUND  
JUNE 30, 2007

	<u>State Allocation</u>	<u>Local Funding</u>	<u>Federal Funding</u>	<u>Totals</u>
<b>ASSETS</b>				
Cash and investments	\$ 1,460	\$1,015,180	\$ -	\$1,016,640
Accounts receivable	-	51,975	-	51,975
Prepaid rent	<u>-</u>	<u>51,282</u>	<u>-</u>	<u>51,282</u>
<b>TOTAL ASSETS</b>	<u>\$ 1,460</u>	<u>\$1,118,437</u>	<u>\$ -</u>	<u>\$1,119,897</u>
<b>LIABILITIES AND FUND BALANCE</b>				
<b>LIABILITIES:</b>				
Accounts payable	\$ 9,613	\$ 118,896	\$ -	\$ 128,509
Accrued salaries	-	523,194	-	523,194
Due to State of Delaware - pension costs	-	79,690	-	79,690
Uniform deposits	<u>-</u>	<u>167,080</u>	<u>-</u>	<u>167,080</u>
Total Liabilities	<u>9,613</u>	<u>888,860</u>	<u>-</u>	<u>898,473</u>
<b>FUND BALANCES (DEFICIT):</b>				
Board-designated	-	30,415	-	30,415
Unreserved:				
General fund	<u>(8,153)</u>	<u>199,162</u>	<u>-</u>	<u>191,009</u>
Total Fund Balances (Deficit)	<u>(8,153)</u>	<u>229,577</u>	<u>-</u>	<u>221,424</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u>\$ 1,460</u>	<u>\$1,118,437</u>	<u>\$ -</u>	<u>\$1,119,897</u>

DELAWARE MILITARY ACADEMY CHARTER SCHOOL  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2007

	<u>State Allocation</u>	<u>Local Funding</u>	<u>Federal Funding</u>	<u>Totals</u>
<b>REVENUES</b>				
Charges to school districts	\$ -	\$1,454,448	\$ -	\$1,454,448
State aid	3,142,234	-	-	3,142,234
Federal aid	-	-	141,516	141,516
Earnings on cash and investments	-	56,061	-	56,061
Contributions	-	580,581	-	580,581
<b>TOTAL REVENUES</b>	<u>3,142,234</u>	<u>2,091,090</u>	<u>141,516</u>	<u>5,374,840</u>
<b>EXPENDITURES</b>				
Current:				
Instructional services	2,921,352	580,945	111,210	3,613,507
Operation and maintenance of facilities	157,315	905,639	-	1,062,954
Transportation	87,357	340,638	-	427,995
Capital Outlays:				
Equipment	3,175	30,438	30,306	63,919
Debt service:				
Principal	-	6,579	-	6,579
Interest	-	282,630	-	282,630
<b>TOTAL EXPENDITURES</b>	<u>3,169,199</u>	<u>2,146,869</u>	<u>141,516</u>	<u>5,457,584</u>
<b>NET CHANGE IN FUND BALANCES</b>	(26,965)	(55,779)	-	(82,744)
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<u>18,812</u>	<u>285,356</u>	<u>-</u>	<u>304,168</u>
<b>FUND BALANCES (DEFICIT), END OF YEAR</b>	<u>\$ (8,153)</u>	<u>\$ 229,577</u>	<u>\$ -</u>	<u>\$ 221,424</u>



DELAWARE MILITARY ACADEMY CHARTER SCHOOL  
SCHEDULE OF EXPENDITURES BY NATURAL CLASSIFICATION - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2007

EXPENDITURES

Current:

Salaries	\$ 2,411,713
Employment costs	871,436
Travel	3,959
Contractual services	130,872
Communications	52,238
Public utility services	84,632
Insurance	45,361
Transportation	427,995
Land/building/facilities	697,938
Repairs and maintenance	37,960
Other contractual services	195,097
Supplies and materials	31,345
Operating supplies	102,767
Tuition reimbursements	9,178
Computer/word processing software	1,965

Capital Outlays:

Equipment	63,919
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Debt Service:

Principal	6,579
Interest	<u>282,630</u>

TOTAL EXPENDITURES	<u>\$5,457,584</u>
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Dover, Delaware  
800.355.8210  
Media, Pennsylvania  
610.565.5222

INDEPENDENT AUDITORS' REPORT ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

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September 28, 2007

Board of Directors  
Delaware Military Academy Charter School  
Wilmington, Delaware

We have audited the financial statements of the governmental activities and each major fund of Delaware Military Academy Charter School, Wilmington, Delaware as of and for the year ended June 30, 2007 and have issued our report thereon dated September 28, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Delaware Military Academy Charter School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Delaware Military Academy Charter School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School's financial statements that is more than inconsequential will not be prevented or detected by the School's internal control. The significant deficiencies are described in the accompanying schedule of findings and recommendations as items #05-1, #07-1, #07-2, #07-3, #07-4 and #07-5.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School's internal control.

Board of Directors  
Delaware Military Academy Charter School

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described in the accompanying schedule of findings and recommendations are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Delaware Military Academy Charter School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of the Board of Directors, management, the Department of Education, Office of the Governor, Office of the Controller General, Office of Attorney General, Office of Management and Budget, Office of Auditor of Accounts and the Department of Finance; and is not intended to be and should not be used by anyone other than these specified parties. However, under 29 Del. C., Section 10002(d), this report is a public record and its distribution is not limited.

*Barbacane, Thornton & Company*  
BARBACANE, THORNTON & COMPANY

## DELAWARE MILITARY ACADEMY CHARTER SCHOOL

### SCHEDULE OF FINDINGS AND RECOMMENDATIONS

#### STATUS OF PRIOR YEAR FINDINGS

##### FINANCIAL COVENANTS

###### 05-1 Finding

During our prior year audits, we noted that the School did not meet the financial covenants in its loan agreement with Wilmington Savings Fund Society, FSB. During the term of the loan, the School is required to maintain at all times the following covenants:

- Minimum fund balance of \$250,000 as of June 30, 2005 and an increase by 50 percent of net surplus as of June 30, 2006 and 2007.
- Minimum cash flow coverage ratio of 1.10:1, effective June 30, 2006 and 2007.

The School did not meet either covenant as of June 30, 2007.

##### Recommendation

We recommended that the School develop a strategy to meet the above-listed covenants.

##### Status

The School did not meet the above covenants as of June 30, 2007.

##### Corrective Action Plan

The School has requested and has received relief from the WSFS Bank covenants as described above for the year ended June 30, 2007. This issue has been discussed with a representative of WSFS Bank, who understands the combinations of facts that preclude the School's ability to meet the covenants for this reporting period. The bank has issued a waiver letter to relieve the School of this requirement for this year.

#### CURRENT YEAR FINDINGS AND RECOMMENDATIONS

##### DETAILED PROPERTY RECORDS

###### 07-1 Finding

During our current year audit, we noted that the Charter School does not maintain accurate data for all owned capital assets. In accordance with generally accepted accounting principles, the School should maintain a complete and accurate list of capital assets detailing the cost and useful life of the asset along with the date of acquisition. In addition, the preparation of detailed property records aids in the accounting for property disposals, substantiates insurance claims for lost or damaged items, provides information for proper filing of income and property tax returns, and provides controls to safeguard the

DELAWARE MILITARY ACADEMY CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

assets. Management did not have a complete understanding of the information requested to be maintained for capital assets. Failure to maintain detail records may result in an incomplete capital asset listing.

Recommendation

We recommend a written procedure statement that would require the following:

- A detailed property record for each asset.
- A property identification number to be assigned and affixed to each asset.
- A capitalization policy under which minor disbursements within a specified dollar amount would be immediately charged to operations.

At a minimum, the detailed property records should include the following information:

- Description, asset number and location.
- Acquisition cost and date of acquisition.
- Assigned life and method of depreciation.
- Depreciation taken on an annual basis with accumulation thereof.

We further recommend that a physical count of property should be periodically taken and compared to the items carried on the detailed subsidiary records of property and equipment. Such physical counts will help to detect the loss or unauthorized use of valuable property.

Corrective Action Plan

The School will maintain a more detailed and accurate capital asset listing in fiscal year 2008.

SUPPORTING DOCUMENTATION - CASH RECEIPTS

07-2 Finding

During our review of cash receipts, we noted that not all items listed on the deposit tickets could be traced to a receipt. In accordance with the State of Delaware Budget and Accounting Manual, the School should maintain detail receipts to support the corresponding deposit ticket. Due to the minimal amount of miscellaneous receipts, the School did not require copies of the supporting documentation to support the deposit ticket. As a result of not maintaining a copy of the supporting documentation, an incorrect revenue account may be charged.

Recommendation

We recommend that the School implement procedures so that proper documentation is maintained for all receipts received in cash. One way to ensure proper receipts are given is to use a carbon copy receipting book. We further recommend that cash receipts be reconciled on a monthly basis.

DELAWARE MILITARY ACADEMY CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

Corrective Action Plan

The School will attempt to improve documentation of cash receipts in fiscal year 2008.

BOARD APPROVAL OF EMPLOYEE BONUSES

07-3 Finding

During our current year audit, we noted that employee bonuses were paid without documentation of Board approval. In accordance with best accounting practices, significant transactions should be approved by the Board of Directors. Although bonuses were discussed at the June 27, 2007 Board meeting and ultimately approved at the August 22, 2007 Board meeting, bonuses were paid in the pay cycle ended June 23, 2007. As a result of not documenting Board approval of employee bonuses prior to disbursement of these funds, an unauthorized employee bonus could be made.

Recommendation

We recommend that bonuses be approved and documented before they are paid.

Corrective Action Plan

In the future, the School will document Board approval of employee bonuses prior to disbursement of these funds.

BACKGROUND CHECKS

07-4 Finding

During our current year audit, we noted that the School did not perform background checks for several new employees. The School's policy states that all new employees must have a background check before being hired. Performing background checks can reduce the costs of firing and replacing inappropriately hired individuals. Also, performing background checks may be helpful or sometimes necessary for obtaining employee bonding. If background checks are not completed, the School takes the risk of hiring an individual who is not fully qualified in accordance with the School's standards.

Recommendation

We recommend that the School perform background checks on all new employees. Such checks could include verification of identity, social security number, education, certifications and credentials, employment, credit history, business and personal references, motor vehicle record and criminal conviction record. We reiterate that it is important to know the history of the individuals being hired,

Corrective Action Plan

In the future, the School will perform background checks on all new employees.

DELAWARE MILITARY ACADEMY CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

JOURNAL ENTRIES

07-5 Finding

During our current year audit, we noted that the School did not prepare all journal entries which would convert the financial statements from cash basis to accrual basis. Although the School did review all journal entries proposed and agreed with all the entries, in the future, it would be beneficial to practice and develop a better understanding of the effect of conversion entries of cash to accrual and GASB No. 34 conversion entries.

Recommendation

We recommend that the School develop the necessary workpapers and support for the accrual and conversion.

Corrective Action Plan

In the future, the School's Chief Financial Officer will prepare all journal entries prior to the audit.